Pension Protection Fund

STRATEGIC PLAN 2014

Contents

Foreword

At the end of this financial year the PPF will have been protecting members for ten years. In that time UK schemes and members have faced significant and varying challenges and transformations within the pensions and economic landscape. The PPF itself has changed dramatically, and has grown in size, scale and complexity.

As we look to the changing needs ahead, our aim is to ensure we are well placed to deliver our core responsibility of providing security to the members we protect.

The objectives we have set out in this Plan, continuing from last year, centre on the principles we believe will deliver this goal: our Members, our Funding, and Managing our Risks.

The year ahead will be significant, and in many ways represents a step change in our journey as an organisation.

We will shortly be 'moving house' to new facilities, a change designed to help us deliver our plan to bring our member services in-house. During the summer we will be consulting with our stakeholders on the move of our insolvency provider to Experian and to finalise plans for the next Levy triennium (2015-18), while throughout the year we will be reviewing our models for investment, risk and finance operations – to ensure they remain best in class and appropriate for our growing size and scale.

We will also continue to seek improvements in our delivery model. By the end of the period of this Plan we expect to have transferred close to half a million FAS and PPF members to our protection, and ensuring they can feel confident about their future, as soon as possible, is key to this work. To do this we will be utilising our panels to drive better scheme data, and shorten assessment periods.

A key part of our success is our people and I am proud that we were named amongst the Sunday Times Top 100 Best Companies to Work For in the Not-For-Profit Sector for 2014. In the year ahead we will continue to develop this strength to make improvements in our workplace and pursue better outcomes for our members, stakeholders and partners.

Lady Judge CBE
Chairman

Alan Rubenstein
Chief Executive

1 About us

1.1 This is what we do

Pension Protection Fund

We protect millions of people who belong to defined benefit, e.g. final salary, pension schemes in the United Kingdom.

If their employers fail, and their pension schemes cannot afford to pay what they promised, we will pay compensation for their lost pensions.

Tens of thousands of people are now receiving compensation and hundreds of thousands more will do so in the future.

Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes. We also generate income from our own investments, taking on the assets of schemes that transfer to the PPF – and recovering money, and other assets, from insolvent employers of the schemes we take on.

We are a public corporation, set up by the Pensions Act 2004, run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

Fraud Compensation Fund

We also pay compensation to members of pension schemes of all types whose employers fail and whose schemes have lost out financially due to dishonesty.

This compensation is paid for through a separate levy on all pension schemes.

Financial Assistance Scheme

We manage the Financial Assistance Scheme (FAS) on behalf of the Government which funds it.

The FAS pays financial assistance to people who belonged to certain defined benefit pension schemes which are ineligible for compensation from the PPF – in particular, those which started winding-up between January 1997 and April 2005.

1.2 Our strategic framework

Our staff are united in pursuit of our vision, mission, values and strategic objectives. Our vision will be realised as we fulfil our mission; to do this we must also be successful in delivering our strategic objectives. These are underpinned by the values that all PPF employees share and which drive everything we do.

Vision:

- Protecting people's futures

Mission:

- Pay the right people the right amount at the right time

Foundations:

- People, Communications, Efficiency and Effectiveness

Strategic Objectives:

1. Meet our funding target through prudent and effective management of our balance sheet
2. Deliver excellent customer service to our members, levy payers and other stakeholders
3. Pursue our mission within a high calibre framework of risk management

Values:

Integrity	Collaboration	Accountability	Respect	Excellence
'Do the right thing'	'Work as one'	'Own your actions'	'Value every voice'	'Be your best'

icare

integrity | collaboration | accountability | respect | excellence

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The next three years: 2014—2017

2.1 Our vision of the PPF in 2017

At the end of March 2017 we are a mature customer focused financial institution. With £21 billion assets under management and 280,000 PPF members transferred, the PPF continues to grow at a pace. At this point we have completed our biggest operational change, the in-sourcing of member services, while, if we have chosen to do it, the in-sourcing of asset management will be underway. While much remains to do in the journey towards fulfilling our mission, we have created a PPF that is ready for the challenges ahead.

We come to work every day for our members. They cannot choose their compensation provider but we treat them all as if they can, which is key to maintaining their satisfaction as customers of the PPF. Our approach to serving them is recognised through awards. We are transferring members of schemes whose employers have become insolvent into the PPF faster than ever before and at the lowest cost to the levy payer, without compromising service. Central to this is our active management of third parties; be they trustees. outsourced providers or members of our panels, they know our objectives and how we will achieve them. Our other large customer group are levy-paying schemes. With a new insolvency risk provider and measurement system established, the New Levy Framework continues to deliver on its aims of stability and predictability into the second triennium.

Our members' confidence in the PPF is rooted in knowing that we'll be able to meet our promise to pay them compensation. In 2017 we remain on track towards our funding target to be, in broad terms, self sufficient by 2030 and, informed both by our experience to date and by our full, evidence-based appraisal of external factors, we are confident of remaining on track. As we approach 2030, we also have a better picture of the investment portfolio we'll need when we get there and in the meantime we're already making the most of illiquid investment opportunities.

There are risks ahead but our risk management structure is robust and fit for purpose. We know our appetite for risk and we have embedded a culture of taking account of that in every decision we make. Our investment risk management and investment operations management are both tightly controlled and supported by strong data and processes.

All of this is underpinned by the strength we have in our people, our communications and performing in an efficient and effective manner. The PPF is an inspirational place to work, a place to develop a career in pensions, financial services or the public sector. We lead and manage our people effectively, giving them responsibility, developing their skills and recognising their achievements. Our people are known for being credible and professional when communicating our work to each other and to our partners, and for being constantly aware of their responsibility to protect members' futures. Internally we communicate effectively to ensure our priorities are shaped and understood by staff. This ensures effective input and buy-in for our business and strategic plans, which are founded on our lean, efficient and repeatable processes.

Finally, although the organisation has matured and changed in scale greatly from inception to 2017, we have not lost any of our enthusiasm for innovation. We recognise that managing the future of Defined Benefit provision is a complex challenge, with very few easy answers, requiring cooperation and expertise across the industry. We use our influence to play a very significant role in this critical endeavour. We work closely with our partners at home and in Europe to identify and develop solutions and to challenge their thinking when needed.

2.2 How we're going to achieve it

Our operations are built on the strong foundation of our people working efficiently and effectively and communicating what we do, both within the organisation and outside it, thus giving confidence in our ability to deliver our mission.

Our foundations

People

The PPF has a unique place in the pensions landscape. Our people bring a range of experiences and professional skills to their work. We use them in a way that encourages innovation, develops understanding and contributes to risk management across the organisation and we strive to be recognised as a skilled and responsive organisation.

We have grown a lot since 2005, in scale, in membership and in the breadth of our operational requirements and capability, and we have all had to adapt alongside that growth. In order to ensure we deliver on our objectives, our people need to continue to develop. That is why we are focused on their development and career needs and why we all behave in ways that show that we value their efforts and their contribution to the PPF. As we bring our customer administration in-house, this remains central to our thinking, as we ensure the teams we are building deliver exceptional service and our people will be proud to be part of the team and to live our values.

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The next three years: 2014—2017 continued ...

We measure the views of our employees and of our members. In this way we aim to understand better how we are doing in helping our people to deliver the service as a customer focused financial institution. We are extremely pleased to have been awarded one star in the Sunday Times Best Companies Survey and to be listed in the Best Companies to Work For in the Non-Profit Sector list. We will continue to use the feedback Best Companies provides to drive improvements in the workplace.

Communications

We have always placed a great emphasis on the importance of communicating with our customers and stakeholders in a transparent and understandable way, and listening to their feedback. We see this two-way communication as vital to achieving our Vision and delivering confidence and security to the members we protect. We want those interested in what we do to understand the 'PPF story', making sure they remember why we were created and what to expect from us in the future.

We aim to be as accessible and open as possible and in the next three years we will continue to use a number of communication channels to make this happen, including face-to-face meetings, telephone support, customer surveys, our website, webcasts and letters. At the same time we intend to build on established publications including the Purple Book, the 7800 Index, consultations on the Levy and our Funding Strategy.

As we mature as a financial institution we will continue to broaden our engagement with stakeholders, using our expertise, experience, data and analysis to engage with Government and industry in debates such as Defined Ambition, IORP II or initiatives like the Pensions Infrastructure Platform.

Efficiency and effectiveness

As a well-established organisation, we must demonstrate the efficiency of our processes and continually strive for excellence. This concept underpins the operational improvements we will deliver over the next three years. We expect our administration, legal and actuarial panels to bring greater control and granularity to our business costs. In the next year we will also continue to ensure our approach to contract management, the ways we assess unit costs for all our business services, and our understanding of our own resource and financial expenditure, keep pace with our increasing size and scale.

To deliver our mission we must meet our critical business objectives keeping our funding strategy on a steady course and delivering excellent customer service to our members. And, as a key pillar of the pension protection regime in the UK, we must ensure we remain a beacon for effective risk management.

1. Meet our funding target through prudent and effective management of our balance sheet

We have set ourselves a funding objective to be self sufficient, in broad terms, by 2030. We chose 2030 because our research suggests that by that time future claims will be low relative to the size of PPF liabilities. We also anticipate the Pension Protection Levy will have ceased to be significant by that time.

In our 2013 Funding Strategy and 2012/13 Annual Report and Accounts we reported a surplus of £1.8 billion and increase in the probability of success from 84 per cent at 31 March 2012 to 87 per cent at 31 March 2013. While we are pleased with this improvement in our overall position we are, however, mindful that this needs to be considered in the context of our long-term strategy.

Although there are indications that the economic climate has stabilised and some signs of recovery are emerging, the future continues to be uncertain. Across the 2012/13 year, pension scheme funding, as measured by our 7800 index, did not improve, not least because of the impact of record low levels of bond yields. At the same time we experienced a number of high profile claims, and at record levels - £1 billion. The number of new claims did however remain broadly stable. Although pension scheme funding has markedly improved since, in many senses we still remain in uncharted territory following the global financial crisis.

Against this background, it is vital that we remain vigilant to the short and long-term risks to our Funding Strategy. We recognise the importance of regular, close monitoring of our position and the need to consider both the 'probability of our success' and the 'downside risk' as well as the possibility that prevailing conditions will remain the 'new normal'. This makes managing our balance sheet a critical part of how we ensure we meet our commitments to members.

These considerations will inform our Triennial Levy Review and the PPF-equivalent Own Risk Solvency Assessment (ORSA) we will undertake as part of our annual funding review.

Maximising the Fund's size and scale, within our prudent risk appetite, remains a key focus; by making our assets and levy collections work as effectively as possible we can deliver the best protection to our members. We have had strong returns in the last year, despite the uncertain environment, and our aim is to continue to follow our award-winning investment strategy whilst targeting returns of 1.8 per cent per annum relative to our liabilities. We will continue to enhance the framework that supports our strategy and during the year will define revisions to our custodial services model, portfolio analytics and investment support services.

The next three years: 2014—2017 continued …

We are closely monitoring the potential effects of legislative developments. European initiatives such as the European Market Infrastructure Regulation (EMIR) – introducing potentially more expensive mandatory centralised clearing for some derivative transactions - may require us to flex our investment strategy in order to maintain existing levels of performance. Proposed changes to the PPF Compensation Cap and the impact of the Pension Regulator's new objective or the Government's Defined Ambition proposals may also have an impact on our decisions. At this stage, we consider it premature to make any absolute judgments.

Recoveries from insolvent employers continue to be an important income stream. We have made, or expect to realise in the future, close to £1.6 billion for schemes. We will continue to work closely with the Pensions Regulator in this area.

The size and complexity of the fund and the assets that transfer from schemes following assessment require a high level of expertise. Our people strategy will ensure that we bring the right mix of industry experience into the business whilst developing our existing employees to meet the future challenges. We intend to continue to develop our reputation as an employer of choice, and as a customer focused financial organisation that delivers a strong social mission.

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2. Deliver excellent customer service to our members, levy payers and other stakeholders

The PPF has always focused its efforts on delivering the best outcome for its members, and last year we announced that we would be moving PPF member services in-house. We intend to have fully implemented the programme by 31 December 2014. This change, the most significant operational development since our inception, will give us greater flexibility and control over the services we provide to our members. Over time it will also enable us to bring down administration costs.

By the end of the period of this plan we anticipate providing around 300,000 members with a PPF customer experience tailored to suit their needs and that matches our immediate and long-term growth. Our Vision is that our members will experience exceptional service whenever they interact with us, our people will be proud to be part of the team and we will establish a culture of innovation and continuous improvement. We will continue to provide FAS assistance through our outsourced partner, and the customer experience in both PPF and FAS will be closely aligned.

During the year we will complete the second Triennial Levy Review, and in doing so will look to continue to provide predictability in individual bills while balancing affordability for the eligible schemes and security for our members. In July 2013 we announced changes to our insolvency risk provider. We will be working closely with them and with our stakeholders to ensure a smooth transition to our new model.

Over recent years we have transformed the way we manage schemes through the assessment process, and we continue to look for ways to improve this still further. Our focus over the three years ahead will be about implementing our use of partnership working, with the ambition of completing 75 per cent of scheme assessment periods in less than two years, and some in less than a year. During this period we also expect to close the portfolio of FAS schemes, allowing us to focus on paying and administering assistance for our 164,000 FAS members.

We remain committed to improving our operating model and systems to achieve certainty for schemes and members, and to provide and obtain value for money. We will also take greater control over delivery costs through the use of the administration, legal, actuarial and trustee panels we have established. These will reward good, and penalise poor, performance. At the same time we will strengthen our integrated systems. We will seek to remain a market leader in pension scheme data quality assurance and work with the industry and the Pensions Regulator to improve the quality of data held and managed by pension schemes and their administrators. Many of these initiatives are intended to drive down our costs– and the burden on levy payers – in the medium term. However, managing the substantial changes we will see in 2014/15 – particularly the insourcing of administration – will have short term impacts on the assessment process, meaning that the real benefits of these improvements will become more apparent in 2015/16 and beyond.

The next three years: 2014—2017 continued ...

3. Pursue our mission within a high calibre framework of risk management

We play a major role in the pension protection regime, and work with TPR, DWP, and the pensions industry to understand and act to mitigate the risks in the system in order to ensure the best possible outcomes and future for scheme members and the UK's defined benefit system.

We recognise that we operate in a risky and uncertain landscape. To achieve our objectives and provide confidence to our members and stakeholders it is important that we have an effective risk management infrastructure across all our activities – funding, operational and environmental. In an uncertain environment controlling our risks is more critical than ever, and vital to safely delivering our promise to protect people's futures. Moreover, as we embark on a period of particularly intense change for the organisation, we have recognised the increased risk to execution that poses in a number of operational areas, and modified our controls and resources where prudent to mitigate this.

We are committed to fulfilling our role in the broader pensions framework and aid risk management across the pensions system by using or sharing our experience and evidence (e.g. The Purple Book, Funding Strategy) to interpret the effects of the current economic outlook, advise on policy initiatives and help to identify trends and challenges to the system.

We are keen to ensure the best possible solutions are identified, robustly examined and adopted – recognising the diversity of shape and scale within UK pension provision. We aim, for example, to support the UK authorities in identifying the potential consequences for pension protection arising from European initiatives and the Government's plans to examine the role for 'defined ambition' pensions. We are also aware that there are environmental factors that may have a direct influence on the PPF and will work to adopt change where necessary or where appropriate take action to mitigate any negative impacts.

In general, we have a cautious risk appetite in respect of all our risk categories; this reflects our preference for safe delivery options that have a low degree of residual risk, with a strong control framework in place for investment operations. Our risk management framework is not intended to stifle initiative but rather to empower our people to work within a transparent, well-managed structure.

Our current approach to risk management has served us well. However, we are mindful that as the organisation grows we will need to continue to refine our approach and maintain a joined up approach to risk identification, risk tolerance and risk management. By doing so, we can achieve our goals, identify opportunities for improvement and mitigate the effects of the sort of confluence of risk incidents that have troubled many financial and non-financial firms in recent times.

Our intention is to continue to develop understanding of our approach to risk management across all levels of the organisation, whilst at the same time enhancing core areas of our risk management infrastructure, and maintaining best practice in systems and processes within our custody, fund accounting and other investment operations.

3

Our operating environment

3.1 Legislative regime

Our powers and responsibilities were originally set out in the Pensions Act 2004 and are amended and augmented in subsequent primary (Acts) and secondary (Regulations) legislation.

Changes introduced in the Pensions Bill 2013-14 will:

- alter the operation of the PPF compensation cap by increasing the cap for members with long service in their schemes.
- introduce a new objective for the Pensions Regulator.

During the year regulations clarifying the definition of money purchase benefits are also expected. They will impact a wide range of areas including PPF eligibility, the Pension Protection Levy and compensation entitlement. If they are brought forward, many aspects of the Government's proposals for a new form of Defined Ambition pension will also impact the PPF and PPF-eligible schemes. Across the period of the Plan a referendum on the future of Scotland will also take place. We will continue to assess the impact of these proposals on the PPF and whether they will require any adjustment to our plans.

3.2 The Economic Environment

Future claims on the PPF depend on:

- the level of pension scheme funding
- corporate insolvency rates, and
- the risk reduction measures put in place by sponsors and trustees.

We monitor trends in all three factors in order to make assumptions about the number and size of future claims on the fund. The rest of this section gives a flavour of the current state of the pension scheme environment. For more detailed information please see the PPF 7800 index[1] and The Purple Book.[2]

Scheme funding

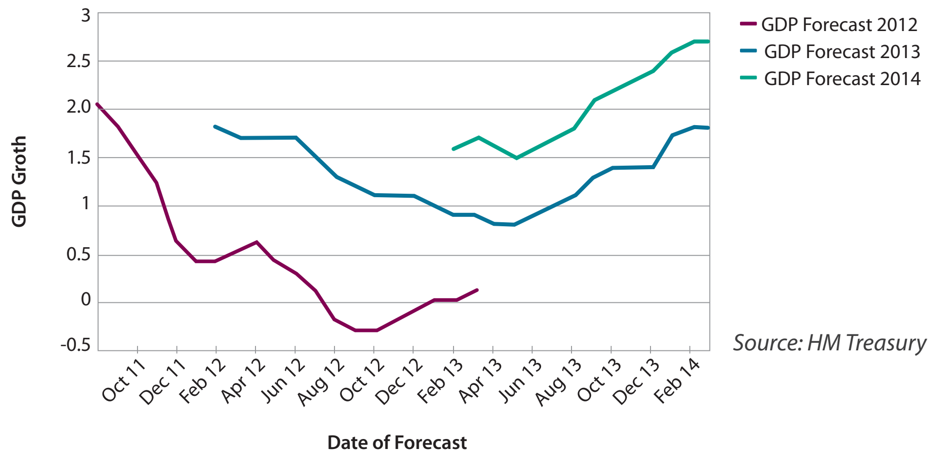
At a macro level, there have been signs of an improving economy over the last 9 months. Economic activity has seen above trend growth since the second quarter of 2013 and business surveys point to relatively strong growth in the first quarter of 2014. In the euro area, growth is now positive but the threat of deflation is present. Forecasters have revised up their growth expectations for 2013 and 2014 consistently since July 2013 and have forecast 1.8 per cent for 2013 and 2.7 per cent for 2014 in recent months.

Focusing more narrowly on the PPF, since April 2013 there has been a marked improvement in scheme funding on a section 179 (s179) PPF funding basis for our universe of schemes, shown in **Chart 2**. However, weaker than expected growth in the US and the emerging markets turmoil at the start of 2014 has resulted in the funding ratio not recovering (due to falling yields) to the two and a half year high achieved in December 2013.

The funding ratio (assets divided by liabilities) improved from 83 per cent in April 2013 to 94 per cent in March 2014. The aggregate deficit of schemes in deficit has fallen from £264 billion to £137 billion over the same period. The improvement over this period reflected a fall in the value of liabilities and a rise in the value of assets.

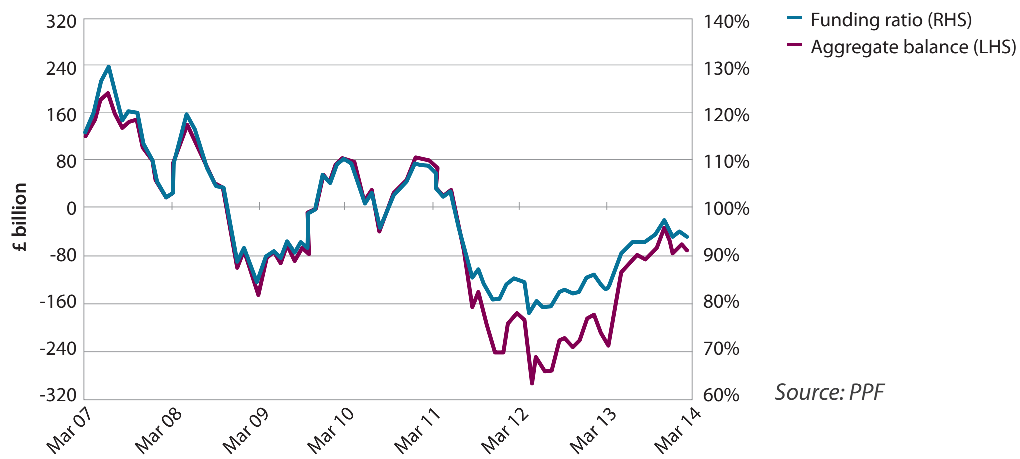
[1]www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx
[2]www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx

Chart 1: UK growth forecasts



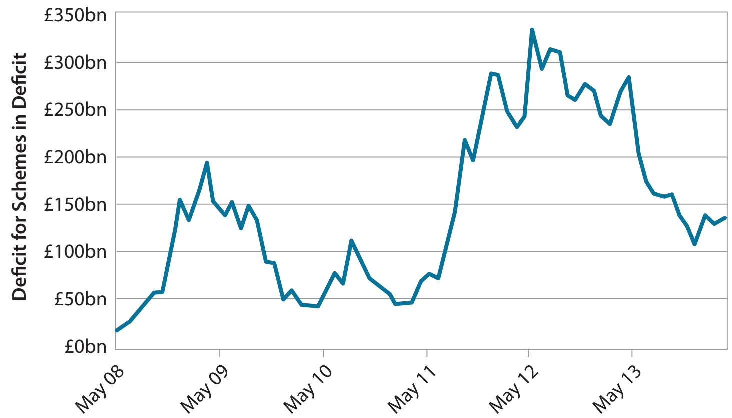
Source: HM Treasury

Chart 2: Scheme funding has improved



Source: PPF

Chart 3: Total deficit for schemes in deficit has fallen back but remains high



Source: PPF

Our operating environment continued ...

The value of defined benefit schemes' assets are driven by trustees' choice of asset class and their market value. The value of pension scheme liabilities depends on more factors, including:

- bond yields;
- changes in estimated pricing in the bulk annuity market;
- inflation; and
- longevity assumptions.

Bond yields and market inflation expectations change continuously and rapidly and can cause large swings in scheme deficits. The assumptions on longevity and estimated pricing in the bulk annuity market used in the estimates of scheme funding on a s179 basis are changed less frequently and tend to be less significant. The last change was made in April 2011 and worsened scheme funding by £45 billion (3.5% of liabilities). New changes to assumptions will come into effect on 1st May 2014.

The fall in liabilities between April 2013 and March 2014 mainly reflected a rise in gilt yields of one percentage point (from 2.2 per cent to 3.2 per cent) which occurred between end-April and end-March 2014. Gilt yields are used to discount future compensation payments to get a present value of liabilities. So if gilt yields rise the discount rate rises and the present value of liabilities falls. The sharp rise in gilt yields mainly reflected the rise in US Treasury yields resulting from the US Federal Reserve scaling back its purchases of US Treasury bonds and mortgage backed securities. Stronger UK economic growth also contributed. The rise in equity markets over the past year more than offset a fall in gilt prices, leading to the value of assets increasing.

The outlook for gilt yields is particularly uncertain given that monetary policy in the UK, US and Euro area is unprecedentedly loose and it is unclear when the major central banks will start to increase interest rates. Given the highly unusual economic backdrop, there is also great scope for policy error; tightening too late resulting in higher inflation and tightening too early leading to slower growth.

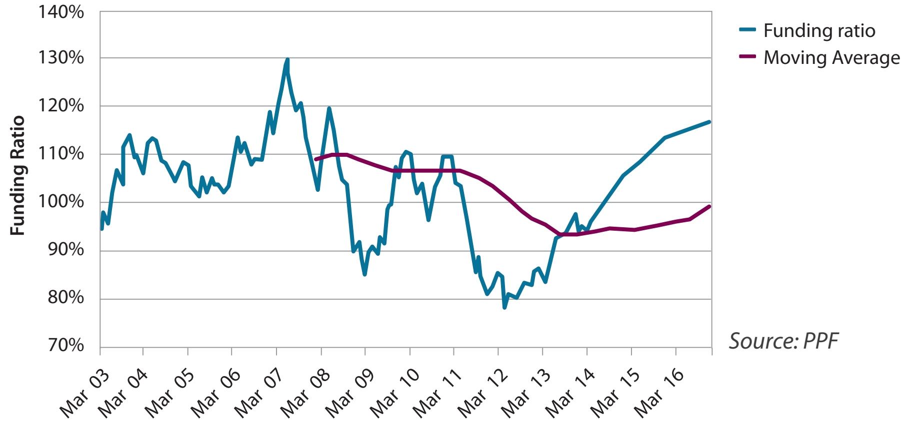
Taking what is in the futures market for gilt yields, market forecasts for equity markets, and adding to assets estimates of schemes' special contributions suggests that scheme funding should improve over the next three years. However, the five-year moving average doesn't move back to 100% until the end of the period.

Corporate insolvency

Insolvency risk has been broadly flat over the last year, as shown in Chart 5. The 1-year ahead insolvency probability for the company sponsors of our 500 biggest risks has been broadly flat at 0.65 per cent over the last year. The outlook for the economy and the correlation between its performance and claims on the PPF remains uncertain.

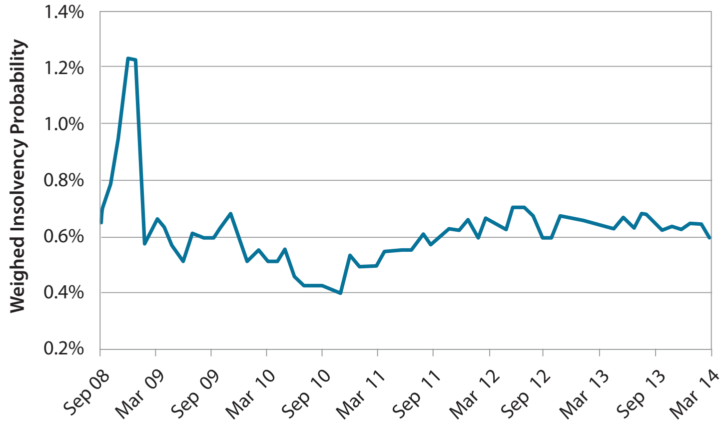
Combining the broadly flat insolvency risk for the universe of PPF eligible schemes and the fall in deficits of schemes in deficit means that our 1-year ahead expected claim amount, before recoveries, has fallen to around £0.8 billion, compared with claims of £1.0 billion in the 2012/13 financial year.

Chart 4: Scheme funding may improve further, but the improvement in smoothed 5-year funding may be more gradual



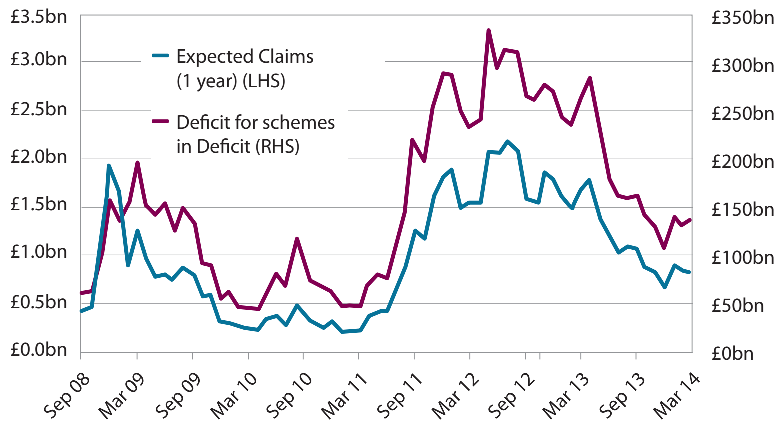
Source: PPF

Chart 5: Flat insolvency rate for the PPF's biggest risks



Source: PPF

Chart 6: Expected 1-year claims on the PPF have fallen back but remain high



Source: PPF

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Our operating environment continued ...

3.3 Our assumptions for 2014-2017

As explained above, our economic environment, and hence our workload, changes continuously. Insolvencies determine cases entering assessment, which determine the scheme assets to transfer to the PPF. We have produced the assumptions below to help us estimate the resources we need for the years ahead. In particular, based on our model outputs and insolvencies to date, we have slightly reduced (from 120 in our previous strategic plan to 110 in this) our assumption as to new cases entering assessment each year.

For operational planning purposes we have assumed equal numbers of new cases across the three years of the plan, as the current evidence does not justify departing from this. These assumptions will of course not be borne out in practice and we refine them each year in light of available evidence

Estimates for end of financial year:	**2013/2014**	**2014/2015**	**2015/2016**	**2016/2017**
PPF				
New cases entering assessment in the year	**110**	**110**	**110**	**110**
Cases transferred to the PPF	120	80	90	90
Cases leaving assessment by other means	30	25	20	20
Total cases completing assessment	**150**	**105**	**110**	**110**
Cases in assessment at year end	**200**	**205**	**205**	**205**
FAS				
FAS 2 qualifying schemes transferring	**110**	**89**	**20**	**0**
FAS 1 qualifying schemes transferring	**13**	**5**	**0**	**0**
PPF				
Members in assessment at year end	**106,000**	**107,000**	**107,000**	**107,000**
Cumulative members in compensation	**204,000**	**228,000**	**254,000**	**280,000**
FAS				
Cumulative members transferred	**141,000**	**160,000**	**164,000**	**164,000**
Assets				
PPF				
Assets Under Management (£)	15.6 bn	17.5 bn	19.6 bn	21.8 bn

Our Business Plan for 2014/15

This business plan covers the financial year 2014/15 and sets out how we intend to achieve the strategic objectives set by the Board.

4.1 Meet our funding target through prudent and effective management of our balance sheet

Success Factor
1. We remain on track to complete our funding mission and are utilising our scale appropriately.
2. By 31 March 2015, we will have reviewed our model for investment operations, including custodial services, risk reporting and investment analytics.
3. By 31 March 2015, subject to identifying products with appropriate risk and return characteristics, we will have made substantial progress in our migration plan into adding additional illiquid assets to the portfolio, consistent with our strategic plan.

4.2 Deliver excellent customer service to our members, levy payers and other stakeholders

Success Factor
4. By 31 December 2014 we will have successfully transferred our PPF member services to an in-house team.
5. We will complete the assessment of 75% of schemes within two years.
6. We will have completed our review of the second Levy Triennium by 31 December 2014 and have transitioned to our new insolvency risk provider for the 2015/16 levy year.

4.3 Pursue our mission within a high calibre framework of risk management

Success Factor
7. The PPF maintains strong relationships with the Government and industry stakeholders and is positioned to inform the debate, and react to changes in the Pensions landscape e.g. Defined Ambition.
8. By 31 March 2015 we will have reviewed our management information, data and knowledge sharing systems to ensure our corporate information strategy remains appropriate to our increasing size and scale.
9. By 31 March 2015 we will have reviewed the governance and management of risk throughout the organisation to ensure it remains appropriate.

4 Our Business Plan for 2014/15 continued ...

Foundations

People

Success Factor
10. Surveys show increased levels of employee engagement over 2013/14, confirming that our culture and behaviours are appropriate for a customer focused financial institution.

Communications

Success Factor
11. Our Vision and goals are clearly articulated and understood by our customers and stakeholders. We have a reputation for being credible, professional and trusted.

Efficiency and Effectiveness

Success Factor
12. By 31 March 2015 we will have implemented a new approach to commercial management of our suppliers.
13. We will have implemented an activity based costing model to measure the drivers of our cost base and will incorporate this methodology into our 15/16 Budget and Strategic Plan.

Updated financial plan and budget estimate

5

5.1 Funding

Our Administration Fund covers the part of our operating expenditure related to delivering schemes through the PPF assessment process and administering the protection levy. It is financed by the PPF administration levy, which is raised by tPR on eligible pension schemes. We draw down these funds via DWP as Grant-in-Aid.

The Pension Protection Fund is financed by the protection levy, the transfer of assets from schemes completing the PPF assessment process, recoveries from insolvent employers and investment returns. Regulations require certain costs to be charged to the Protection Fund. The costs charged to the Protection Fund include investment fees and associated costs, insolvency fees, some member payroll services fees and the associated staff and infrastructure costs.

All costs related to running the Financial Assistance Scheme (FAS) are covered by Grant-in Aid drawn down from DWP; FAS is not funded by PPF levy payers.

5.2 Three-year financial plan

Our financial plan is based on the key volume assumptions in section 3.3. In a number of areas our costs are driven by events that are difficult to forecast and control such as insolvencies, legal claims and the financial markets. The planning process therefore delivers a "most-likely" case forecast and is subject to significant risks.

5 Updated financial plan and budget estimate

Table 1 gives our view of total estimated expenditure for the three years to 2016/17.

Table 1: Expenditure by year

All figures in £m	2013/2014 Fcst	2014/2015 Plan	2015/2016 Plan	2016/2017 Plan
Fund Manager Fees	85.4	103.4	113.2	120.6
Custodian Fees	2.0	2.3	2.6	2.9
Scheme Wind Up Services	2.0	1.9	0.3	0.2
Member Payroll Services	7.4	5.9	3.0	3.0
Insolvency Professional Services	1.5	1.2	1.2	1.2
Levy Risk Scoring Services	0.5	0.7	0.7	0.3
Outsourced Delivery Services	**98.8**	**115.4**	**121.0**	**128.2**
Staff Costs	22.2	27.0	26.0	25.2
Training & Recruitment	1.5	1.8	1.5	1.3
Travel and Meetings	0.2	0.2	0.2	0.2
Staff Related	**23.9**	**29.0**	**27.7**	**26.7**
Accommodation & General Office	3.5	3.5	3.4	3.4
Communication & Publications	0.2	0.1	0.1	0.1
IT & Telecommunications	3.7	7.6	7.2	7.2
Infrastructure	**7.4**	**11.2**	**10.7**	**10.7**
Investment Advisory Fees	1.6	2.4	2.0	2.0
General Legal Services	1.6	2.4	2.4	2.3
Audit & Assurance	0.6	0.6	0.6	0.6
Other Professional Services	2.7	2.0	1.8	1.8
Assurance and Advisory	**6.5**	**7.4**	**6.8**	**6.7**
Controlled Overheads	**37.8**	**47.6**	**45.2**	**44.1**
Depreciation	**0.8**	**3.6**	**3.9**	**4.2**
Total Expenditure	**137.4**	**166.6**	**170.1**	**176.5**
Capital Expenditure	**11.0**	**3.6**	**0.7**	**0.5**

The cumulative number of PPF and FAS members is forecast to grow by 29 per cent to 444,000 by 2016/17. The project to insource member payroll services is set to go live in 2014/15 and remains on track to deliver financial benefits over the coming years.

Outsourced Delivery Services are expected to increase by 29 per cent from £99 million to £128 million. The key driver is the 41 per cent increase in Fund Manager Fees in line with anticipated 40 per cent growth in assets under management (see section 3.3). Assets under management will vary with the level of assets transferred in and fluctuations in market value.

Whilst the weightings to alternative assets impact fees, the overall cost is contained (as a percentage of assets under management) as we benefit from tiered fee scales and tighter negotiations. Custodian Fees are higher, now including collateral valuation costs previously included in the fee charged by our LDI manager.

Controlled Overheads increase from 2013/14 to 2014/15 to reflect the insourcing of Member Payroll Services and the costs to renew our IT infrastructure. Over the remainder of the planning period, Controlled Overheads, Scheme Wind Up Services and Member Payroll Services will all decrease as we achieve the efficiencies of insourcing and complete the transfer of the remaining FAS schemes.

We continue to use external advisers where this represents value for money and where we are obliged to do so and we plan to contain these costs at current levels which represents a real terms saving in spite of continued significant growth in the business. Other professional services include amounts payable to Government Actuary's Department (GAD), non-executive directors and certain necessary advice.

Table 2 shows the planned expenditure by funding source. The decrease in FAS expenditure reflects the wind up of FAS operations. The increase in costs funded by the administration levy in 2014/15 is due to increased IT costs but reduces in the later years as we complete the transition to the new levy risk scoring provider. The remainder of the factors set out in the commentary above describe our expenditure in the Protection Fund.

Table 2: Expenditure by funding source

All figures in £m	2013/2014 Fcst	2014/2015 Plan	2015/2016 Plan	2016/2017 Plan
Protection Fund	110.1	138.7	144.0	152.0
PPF Admin Levy	19.0	20.4	20.0	19.2
FAS Admin Levy (Tax Payer)	8.3	8.0	6.1	5.3
Total	**137.4**	**167.1**	**170.1**	**176.5**

Updated financial plan and budget estimate continued...

Table 3 summarises estimated full time equivalent staff (FTE) over the strategic plan years. The increase in 2014/15 is driven by the insourcing of member payroll services. The decrease in 2015/16 mainly reflects the continued wind up of FAS operations which is planned to complete by the end of that year and also the efficiencies anticipated from the new case management system recently implemented for use by scheme delivery team members.

Table 4 summarises estimated capital expenditure over the strategic plan years. Capital expenditure in 2013/14 mainly reflects costs to renew our IT infrastructure which completes in 2014/15. The costs for the IT infrastructure are initially allocated to the Protection Fund and will be recharged to the Admin and FAS funds on a usage basis across the four years to 2017/18. This recharge is included on the IT and Telecommunications line in table 1.

Table 3: Total FTE

FTE	2013/2014 Fcst	2014/2015 Plan	2015/2016 Plan	2016/2017 Plan
Total	**340**	**375**	**355**	**350**

Table 4: Capital Expenditure by funding source

All figures in £m	2013/2014 Fcst	2014/2015 Plan	2015/2016 Plan	2016/2017 Plan
Protection Fund	10.6	3.3	0.5	0.3
PPF Admin Levy	0.4	0.3	0.3	0.3
FAS Admin Levy (Tax Payer)	0.0	0.0	0.0	0.0
Total	**11.0**	**3.6**	**0.7**	**0.5**

5.3 2014/15 budget estimate

The £167 million budget reflects the estimated cost to deliver 105 schemes through our assessment process; £695 million levy collection and 94 FAS scheme wind ups. It also includes the continued successful implementation of our Statement of Investment Principles (SIP) and running an outsourced member payroll and administration function.

The budget is 22 per cent higher than £137 million forecast for 2013/14. This is due to the increased fund manager fees in line with the anticipated £1.9 billion growth in assets under management and migration to the new SIP.

The £4 million increase in IT and Telecommunications versus 2013/14 reflects the IT hardware and software refresh and an increased level of on going service.

We use an outsourced provider to deliver scheme wind-up services (PPF assessment and FAS wind-up). These costs are declining as FAS assessment winds up and is expected to come to an end in 2015/16. We also plan to decrease the dependency on outsourced services for PPF assessment. Staff-related FAS costs are also expected to decrease in line with above.

Further Reading

For further detail on the PPF and our work, please visit the following pages:

The Pension Protection Fund

http://www.pensionprotectionfund.org.uk

PPF Long-Term Funding Strategy (and updates)

Pension Protection Fund Annual Report & Accounts 2012/13

Risk Appetite Statement

http://www.pensionprotectionfund.org.uk/About-Us/Pages/About-Us.aspx

The Purple Book

http://www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx

PPF 7800 Index

http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx

For more information on the Pensions Regulator, see:

The Pensions Regulator

http://www.thepensionsregulator.gov.uk/

Notes

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